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THE INVESTOR AND LEAGUE LOANS

By DR. MAX WINKLER
Vice-President, Bertron, Griscom & Co., Inc.

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The Investor and League Loans

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THE INVESTOR AND LEAGUE LOANS

THE rôle played by the League of Nations in the economic and financial recovery of Europe is particularly interesting at the present time, inasmuch as a number of governments may contract new loans in the near future under the auspices of the League. The following report, prepared for the INFORMATION SERVICE *by Dr. Max Winkler, reviews in some detail the League's record to date. Eight loans have been floated under the auspices, or with the assistance, of the League of Nations: The Austrian loan; the Hungarian loan; two Greek loans, and the German†, Bulgarian, Estonian and Danzig loans. As Dr. Winkler points out, the purpose of each of these loans has been highly constructive, and from a purely commercial point of view, the financing has been unusually successful.*

THE AUSTRIAN LOAN

Irrespective of the criticism which may be raised against the League of Nations on political grounds, even its most pronounced opponents admit that the economic recovery of Europe has been greatly aided by the financial intervention of the League. It is safe to assert that the rehabilitation of a number of European countries could never have been effected had it not been for the League of Nations. The chaotic and desperate condition in which new Austria found itself immediately after the War is still easily recalled. Once a mighty empire, dominating a vast territory extending almost from the Baltic to the Mediterranean, from the Alps to the Euxine, ruling over Teuton, Slav, Latin, Magyar and even Mahomedan, Austria was reduced by the war to but a faint shadow of its former grandeur. The catastrophic decline in the value of the *krone*, the loss of its richest territories, the heavy burdens imposed by the war and the still heavier ones by the treaties of peace, had sufficed to throw the erstwhile Dual Monarchy into an abyss from which it appeared nothing but a miracle could save it. Its coal riches and most of its fertile soil had been given to other countries, and there was left only the barren rocks of the Alps and a huge capital of almost two million people. Austria was not permitted to unite with Germany, despite the fact that plebiscites organized in two of its provinces had voted in an overwhelming majority for fusion with its former ally.*

Foreseeing the inevitable, however, the people who remained in the remnant of the former Dual Monarchy asserted their will to exist. The outside world did not fail to come to the aid of a country which for centuries had stood as a powerful bulwark protecting Western civilization from the onslaught of Turk and Tatar.

In September, 1922, at the request of Austria, a plan was formulated by the League of Nations for the financial and economic rehabilitation of the country and was adopted by the representatives of the principal powers of Europe.

The plan was based upon a recognition of the political integrity and economic independence of Austria and the Declaration (Protocol No. 1 of October 4, 1922) designed to maintain it. Aided by the confidence which this Declaration created, the Austrian Government instituted a program of reform in order to insure the balancing of its budget by the end of 1924.

This program of reform included:

a. The reduction of ministries, simplifying their organization and eliminating overlapping.

b. Reorganization or eventual transfer to private management of State industrial enterprises.

c. A reduction in the number of State employees. [About 36,500 were dismissed between October 1, 1922 and May 26, 1923, as part of the program for the release of 100,000 employees prior to July 1, 1924.]

d. The enactment of legislation providing for increased revenue from indirect taxation, customs duties and duties of other kinds, and the introduction of a turnover tax.

*Cf. Foreign Policy Association, *Information Service*, Vol. III, No. 20, December 9, 1927.

†For status of German Loan, see p. 22.

During the period of transition, the excess of the Government's expenditures over the revenues available from normal resources—estimated at a maximum of about 500,000,000 Austrian gold crowns—was met from the proceeds of the Austrian Government Guaranteed Loan. In addition, advances from several foreign governments, aggregating about 130,000,000 Austrian gold crowns and made in 1922 in anticipation of the Loan, were refunded with bonds of the Loan, issued in the currencies of the respective lending countries.

Inflation through note issues for the Government's account had been definitely stopped on November 18, 1922, and after that additional notes had been issued only against cover in gold or in foreign balances in stable currencies. A Bank of Issue, independent of Government control and having the sole power of note issue, was established with a capital of 30,000,000 Austrian gold crowns, subscribed in Austria, and has been functioning since January 2, 1923. On the 23rd of May, 1923, its ratio of reserves (gold and foreign exchange balances) to note circulation (the latter in paper crowns being calculated in gold crowns, according to the statutes of the Bank, at the average rate of the preceding half-year) was more than 35 per cent.

STABILIZATION OF AUSTRIAN CROWN

As a result of the monetary measures taken, the Austrian crown was stabilized; its exchange value, during the seven months preceding the flotation of the Loan, deviated hardly at all from the level established in October, 1922.

The Austrian Government Guaranteed Loan, 1923-1943, took the form of an international loan, issued in Great Britain, Italy, Switzerland, Belgium, Holland, Sweden, Austria and the United States of America, in bonds of various denominations and in various currencies for amounts sufficient to yield in the aggregate an effective sum equivalent to 630,000,000 Austrian gold crowns, or about $126,000,000.

Of the total authorized Loan, bonds to the amount required to yield an effective sum not exceeding 585,000,000 Austrian gold crowns were guaranteed as to principal, interest and redemption payments by the countries listed below in the proportion stated:

Great Britain	to the extent of	24½%
France	" " " "	24½%
Czechoslovakia	" " " "	24½%
Italy	" " " "	20½%
Belgium	" " " "	2%
Sweden	" " " "	2%
Denmark	" " " "	1%
Holland	" " " "	1%
Total		100%

In addition to the sum of 585,000,000 Austrian gold crowns thus obtained, upwards of 45,000,000 Austrian gold crowns were also obtained through advances made by the Swiss and Spanish Governments as part of the authorized total of the Loan. These amounts together were estimated to be sufficient for the requirements of the Austrian Government. The advances above described were to rank equally in the pledged revenues, but did not have the Government guaranties.

GUARANTOR STATES DEPOSIT BONDS

Before each issue forming part of the Loan was made, each guarantor State deposited with the National Bank of Switzerland, in the name of the Trustees for the Loan, its own bonds of like tenor and currency to cover the amount of its guaranty in respect of such issue. Thus, dollar bonds of the several States by which the service of the issue is guaranteed are held by the National Bank of Switzerland in the name of the Trustees. Should funds for the payment of any coupons or of any sinking fund installments of the Loan not be in the hands of the Trustees thirty days before the date due, these bonds and coupons are, at the instance of the Trustees and without any action by the bondholders, to be immediately payable by each of the guaranteeing Governments to the extent provided by its guaranty.

MEASURES FOR REDEMPTION OF LOAN

The Austrian Government covenants to pay during the life of the Loan a fixed annual sum which, after deducting the annual interest on the bonds at the time outstanding, is to be sufficient to redeem the entire Loan in annual installments by maturity in 1943. The quota available for amortization of the American issue, increasing from about $600,000 in the first year to about $2,200,000 in the last year, will be used in the redemption of bonds of the American issue by lot at 100 per cent and accrued interest, or, if the Austrian Government shall so elect, in the purchase of bonds in the market, if obtainable at less than 100 per cent and accrued interest.

In addition to being direct obligations, in respect of the payment of principal, interest and sinking fund of the Federal Republic of Austria, the bonds of this Loan are secured by a first charge on the gross receipts of the customs and the tobacco monopoly of the Austrian Government. This charge extends also to an existing advance from the Czechoslovak Government of an amount outstanding at the time of the flotation of the Loan of about 13,500,00 Austrian gold crowns and to any loan which the Austrian Government may raise to provide for the redemption, after June 1, 1934, of the outstanding balance of any particular issue forming part of the Loan contracted. No further charge on these revenues may be created ranking in priority to, or *pari passu* with, the above charges.

The gross receipts from the customs and the tobacco monopoly at the time of the contraction of the Loan amounted to 150,000,000 Austrian gold crowns (about $30,000,000) per annum. Interest charges and sinking fund obligations sufficient to amortize the Loan by maturity will not exceed 67,000,000 Austrian gold crowns (about $13,600,000) per annum.

If, for any reason, the gross receipts of the customs and the tobacco monopoly pledged as security for this Loan should not appear to be sufficient in themselves, other revenues were to be hypothecated on the action of a committee representing the interests of the guarantor States.

The hypothecated revenues were to pass directly into an account controlled by a Commissioner-General, whose first duty it was to see that sufficient sums were retained for the service of the Loan, before releasing any sums for the uses of the Austrian Government. Also, the proceeds of this Loan were to pass into an account of which the Commissioner-General had absolute control.

COMMISSIONER-GENERAL TAKES CHARGE IN 1922

The Commissioner-General commenced to function on December 15, 1922. It was his duty not only to see that the necessary reforms and economies in the administration were carried through, but also that the expenditure of the State did not exceed the limits which the Government had agreed to and which had the balancing of the budget for an object.

To guarantee that the annual budget sanctioned by Parliament and authorized by the Commissioner-General was not exceeded, the Government was requested to submit a budget of expenditures each month to the approval of the Commissioner-General and these monthly budgets could be reduced when in his opinion either the total or individual items were too high. He was to keep in close daily contact with the movements of the Treasury, because the Government required his authorization for disposing of the amounts passed on the accounts already mentioned. In giving this authorization he had always to see that the sums for the service of the Loan remained available. At the time of the flotation of the Loan, the Commissioner-General stated that the monthly budgets had kept within the limits laid down from the beginning and that even a surplus had been obtained.

To strengthen the security of the Guaranteed Loan, the Reparation Commission, by a decision dated February 20, 1923, suspended for a period of twenty years and for such further time as may be necessary until the full repayment of the Loan, the lien for reparation charges on any revenues which may be pledged as security for this Loan.

By the concerted action of the principal nations of the world, including the United States of America in a joint Resolution of Congress approved April 6, 1922, liens against Austrian assets created after the Armistice, in respect to relief credits, were also postponed for a period of twenty years.

A protocol was signed by the European Governments directly interested, including the neighboring States of Italy and of Czechoslovakia, to insure the economic and political independence of Austria. Under the terms of this Protocol No. 1, dated October 4, 1922, the signatory States declared that "they will respect the political independence, the territorial integrity and the sovereignty of Austria," that "they will not seek to obtain any special or exclusive economic or financial advantage calculated directly or indirectly to compromise that independence."

The Government of the Federal Republic of Austria on its part "undertakes, in accordance with the terms of Article 88 of the Treaty of St. Germain, not to alienate its independence; it will abstain from any negotiations or from any economic or financial engagement calculated directly or indirectly to compromise this independence."

The guaranty which had been given with respect to the bonds of this Loan on behalf of eight of the principal nations of Europe gave these nations a very definite interest in assisting in the maintenance of Austria's political and economic position.

In 1925, at the request of the League Council, a thorough inquiry into Austria's economic situation was made by Mr. W. T. Layton, editor of the London *Economist*, and M. Charles Rist, an eminent French expert. Their report was on the whole optimistic. They concluded that the troubles confronting the economic life of Austria were merely a variant, if in a somewhat intensified form, of those with which all European countries had been faced since the war. The remedies most needed were an extension of Austria's markets, a supply of foreign capital, and, internally, a reduction of cost prices throughout industry.

In March, 1926, the League Council decided that the control of the Commissioner-General should cease as from July 1, 1926; that the expenditure of the balance of the Loan should be subject to supervision by the Financial Committee and that control over the revenues assigned for the service of the Loan should be in the hands of a representative of the Trustees. Austria also agreed that, for a period of ten years after the date of the definitive termination of control by the Commissioner-General, the Council of the League should, by a three-fourths majority vote—Austria abstaining, have the right to re-establish control by a Commissioner-General if the proceeds from the assigned revenues were insufficient to cover the service of the Loan or if the equilibrium of the budget were seriously endangered.

As a result, Dr. Zimmerman withdrew from Vienna on July 1, 1926.

THE HUNGARIAN LOAN

The Hungarian Loan was issued pursuant to the Geneva Protocols dated March 14, 1924, approved by the Council of the League of Nations and ratified by the Hungarian Government, for the purpose of effecting the financial and economic reconstruction of Hungary in accordance with the plan of the Council of the League.

This plan provided for stabilization of the Hungarian currency and balancing of the budget on a permanent basis through taxation by June 30, 1926. The execution of this plan was to be under the supervision of the Commissioner-General appointed by the Council of the League and responsible to it. Mr. Jeremiah Smith, Jr., of Boston, was appointed to this office. The proceeds of the Loan were placed under the control of the Commissioner-General and used to cover the excess of expenditures over revenues during the period of reconstruction.

The Loan is secured by a first charge on the gross revenues from Customs, the Sugar Tax and the Tobacco Monopoly, and the net revenue from the Salt Monopoly. The Loan is additionally secured, if required by the

Commissioner-General (or by the Trustees for the bondholders when no Commissioner-General is functioning), by a first charge on any other revenues (except those of the State Railways) and assets of the Government. The security for the Loan is to extend to any loan which the Government might issue to redeem, on or after February 1, 1934, the then outstanding balance of any issue forming part of the Loan, but no other lien on the above revenues and assets is to be created ranking in priority to, or *pari passu* with, the lien of this Loan.

By agreements with the United States, Great Britain, and other nations interested, the obligations for relief bonds were subordinated to the lien of the Loan, and all charges for Reparations, imposed under the Treaty of Trianon, were likewise subordinated by the Reparation Commission.

The revenues pledged were to be paid, as collected, into a special account, controlled by the Commissioner-General, and, when no Commissioner-General was functioning, by the Trustees for the bondholders appointed by the Council of the League of Nations. Out of these funds there were to be transferred to the Trustees, in accordance with the terms of the Loan, on the first of each month, one-twelfth of the annual requirements for interest and sinking fund.

A CASH RESERVE FUND TO BE DEPOSITED

A reserve fund in cash, sufficient to cover one-half of the annual interest and sinking fund requirements of the Loan, was to be kept on deposit with the Trustees to meet any deficiency in the service of the Loan. Any amount drawn from this fund was to be forthwith made good by the Hungarian Government.

Control by the Commissioner-General was to continue until the Council determined that financial stability was assured, but such control might be reestablished at any time while any part of the Loan was outstanding, if the balance of the budget or the security for the Loan was endangered.

Great Britain, France, Italy and the neighboring States of Rumania, Jugoslavia, and Czechoslovakia, in a Protocol signed March 14. 1924, joined with Hungary in solemn declaration to respect the political and economic independence, territorial integrity and sovereignty of Hungary, and the guarantees established for the protection of the bondholders.

The Loan was offered simultaneously in New York and London to the amount of $7,500,000 and £7,902,700 respectively, representing parts of an international loan which was issued also in Czechoslovakia, Holland, Italy, Sweden, Switzerland, Hungary and other countries, in various currencies, for amouts sufficient to yield to the Government in the aggregate an effective sum equivalent to 250,000,000 Hungarian gold crowns, or about $50,650,000. Bonds are dated August 1, 1924, and mature February 1, 1944, through a cumulative sinking fund beginning February 2, 1925, applied to redemption of bonds through purchase in the market, if obtainable at less than par and accrued interest, or if not so obtainable, through annual drawings by lot at par and accrued interest. Except for the sinking fund, bonds are not subject to redemption prior to February 1, 1934, on and after which date the Loan may be redeemed at the option of the Government, and with the consent of the Trustees, as a whole, only upon six months' notice, at par and accrued interest

HUNGARIAN BUDGET IS BALANCED

Budget equilibrium in Hungary was reached with great rapidity after the control began on May 1, 1924. A deficit of 100,000,000 gold crowns had been allowed for the financial year July, 1924 to June, 1925 but the year, in fact, showed an actual surplus.

The following financial year showed an equally favorable result, with a surplus of approximately 62,000,000 gold crowns. Thus two years after the control began—the minimum period contemplated—the reconstruction work had been successfully concluded. The budget had been balanced for

a year and a half, and only about one-fourth of the reconstruction Loan had been used to meet deficits, the balance being available for productive investments. Accordingly the Council decided to terminate the functions of the Commissioner-General as from July 1, 1926, subject to a supervision over the balance of the Loan and the control over the assigned revenues by a representative of the Trustees.

In the case of Hungary the right of the Council to re-establish control at any time during the currency of the Loan, if the equilibrium of the budget were endangered, had been included in the original agreement with the Hungarian Government.

Mr. Smith left Budapest on July 1, 1926.

THE GREEK LOANS

FIRST GREEK LOAN

The purpose of the first Greek Loan was to provide funds for establishing on the land or in industry Greeks who, after having been forced to leave Turkey, were to be settled in Greece, according to the convention for the exchange of populations signed in Lausanne in 1923. The number to be so settled was approximately 1,500,000. For this work a Refugee Settlement Commission had been established by the Greek Government with the approval of the Council of the League of Nations, which was to have supervision over the operations of the Commission. It consisted of two members appointed by the League, one of them an American citizen who was to be the Chairman, and two members appointed by the Greek Government with the approval of the League. The Hon. Henry Morgenthau was the first Chairman and was succeeded by Mr. Charles P. Howland of New York.

The proceeds of the Loan, after repayment of advances amounting to about $16,-450,000 from the Bank of England and the National Bank of Greece for the work of the Commission, were placed at the disposal of the Commission. The Government undertook to transfer to the Commission, free of charge, about 1,250,000 acres of land suitable for cultivation and urban real estate, the value of which is estimated at more than $48,000,000. The Commission planned to grant the lands to settlers on terms involving repayment in semi-annual installments with interest over a period of not more than fifteen years, and to make advances, from the funds at its disposal, for productive purposes on similar terms.

The Loan is the direct obligation of the Greek Government and is secured by:

1. A first charge on revenues to be collected under the control of the International Financial Commission.

   [The revenues so pledged are the receipts from monopolies (*i. e.*, salt, matches, playing cards and cigarette paper), tobacco and stamp duties in the new territories of Greece; from the customs at Canea, Candia, Samos, Chios, Mytilene and Syra, and from the alcohol duty in the whole of Greece. (The last named revenue is subject, however, to a contingent prior charge of about $400,000.)]

2. A charge upon the surplus of revenues heretofore assigned to the International Financial Commission over requirements for the service of the loans for which such revenues have been pledged.

3. A first charge on the property and income of the Refugee Settlement Commission.

   [It was estimated that the value of the property and assets of the Commission after the proceeds of the Loan had been applied as planned would be approximately $94,000,000; and that, taking a period for repayment of fifteen years, the receipts from repayments for lands sold, moneys advanced and rents, should, on an equal annual installment basis, amount after 1928 to not less than $4,700,000 per annum, or more than the annual requirements for the service of the Loan. Approximately four-fifths of this amount, it was estimated, would be repayments of capital, 75 per cent of which, or over $2,800,000, was to be applied as an additional sinking fund for redemption of bonds of this Loan.]

The International Financial Commission referred to above was formed in 1898 to control the collection of, and to administer the revenues for, the service of Greek Government Loans. The members of the Commission are representatives of the Governments

of Great Britain, France and Italy. It has accepted irrevocably the order of the Greek Government to retain from the revenues pledged for this Loan the amounts required for payment of interest and sinking fund.

Since 1898, Greece has passed through two Balkan wars and the great European War, but, nevertheless, it has consistently maintained payments under the obligations of its external debt.

The Loan was authorized to the amount of £12,300,000, equal at par of exchange to about $59,858,000, of which $11,000,000 were offered in New York, £7,500,000 in London and £2,500,000 in Athens. Bonds were issued pursuant to the Geneva Protocols dated September 29, 1923 and September 10, 1924, ratified by Acts of the Greek Parliament dated June 7 and October 24, 1924, and the Resolution of the Council of the League of Nations, dated September 29, 1923 and September 19, 1924. The issue is dated November 1, 1924, and will mature November 1, 1964 through a cumulative sinking fund of not less than one-half per cent per annum applied to redemption of bonds through semi-annual drawings at par. The Loan enjoys the benefit of an additional sinking fund, equal to 75 per cent of capital repayments referred to above. Except for the sinking fund, bonds may not be called prior to May 1, 1936, on and after which date the Government reserves the right to increase the sinking fund or pay off at par the whole Loan on three months' notice.

SECOND GREEK LOAN

Early in 1928 the Greek Government secured another loan to the amount of $36,811,327, of which $17,000,000 were offered in the United States and £4,070,960 (equal at par of exchange to $19,811,327) in Great Britain. Of the American portion, $2,000,000 are understood to have been withdrawn for sale in Switzerland, while of the British portion £700,000 were said to have been placed in Sweden and Italy.

This Loan is related to an agreement, approved by the Greek Parliament and recommended by the State and Treasury Departments of the United States in December, 1927, which will enable Greece eventually to pay back her war indebtedness to the United States, thus settling a long standing controversy.

Under the terms of the agreement, the United States Government will advance to Greece $12,167,000 to bear interest at the rate of four per cent per annum and to be repaid through a sinking fund within twenty years. This advance will be equally secured with the above bonds by a charge, subject to existing charges and ranking in priority to any future charge, on revenues under the control of the International Financial Commission. It will be turned over in its entirety to the Refugee Settlement Commission for refugee settlement work and accordingly should reduce the total amount authorized to be raised by the Greek Government under the League of Nations. If not, a further portion of the second League Loan equal to an effective sum of $12,167,000 will have to be raised, in addition to the above bonds, to constitute the total amount of this Loan.

The Loan is issued pursuant to the Geneva Protocol signed September 15, 1927 and approved by the Council of the League of Nations by resolution of the same date. It was ratified by the Decree Law of the Greek Republic on November 10, 1927, signed by the President of the Republic, ratified by the Greek Parliament and published in the *Official Gazette* on December 7, 1927.

The Loan constitutes a direct obligation of the Greek Government and is secured by a charge, subject to existing charges and ranking in priority to any future charge, on revenues under the control of the International Financial Commission, including receipts from the salt, match and other monopolies and from customs, tobacco, stamp and alcohol duties.

APPLICATION OF PROCEEDS OF LOAN

The proceeds of the Loan are to be applied for stabilizing the currency, for paying floating debt in order that the revenues of the State may be used to maintain a balanced budget, and for continuing the work of the Refugee Settlement Commission.

Greek currency has been subject to relatively small fluctuations in the past year and the Protocol provided for its legal stabilization in relation to gold within six months. A new Bank of Greece is to be established which will be the only bank of issue, and it is planned that, on commencing business, its reserves in gold and gold exchange will be equal to about fifty per cent of the note circulation and other demand liabilities; the legal reserve requirements will be forty per cent.

The Loan is dated February 1 1928 and will mature February 1, 1968 through a cumulative sinking fund applied to semi-annual redemption of bonds by lot at par, commencing February 1, 1929. The issue is not subject to call before August 1, 1938, except for the sinking fund. The Greek Government, however, reserves the right to repay at par upon three months' previous notice, on that date, or on any interest date thereafter (February 1 and August 1), all or any part of the bonds then outstanding.

THE GERMAN LOAN

One of the most constructive steps taken to effect the financial and economic rehabilitation of Europe was the arrangement for the sale of an international loan in behalf of Germany. While not exactly sanctioned by or issued under the auspices of the League, it was modelled along the lines of the Austrian and Hungarian Loans and therefore will be discussed in this report.

The bonds were issued for the purpose of carrying into effect the plan of the first committee of experts appointed by the Reparation Commission, for the double purpose of ensuring currency stability in Germany and, especially, of financing deliveries in kind during the preliminary period of economic rehabilitation. The Loan was issued in Great Britain, France, Italy, Switzerland, Holland, Belgium, Sweden, Germany and the United States of America, in bonds of various currencies, and for an amount sufficient to yield in the aggregate a net sum equivalent, at prevailing rates of exchange, to approximately 800,000,000 gold marks, or about $190,400,000.

The service of interest and amortization of the Loan is:

1. A direct and unconditional obligation of the German Government chargeable on all the assets and revenues of that Government.
2. A specific first charge on all payments provided for under the Dawes Plan to, or for the account of, the Agent-General for Reparation Payments, such charge being prior to reparation and other treaty payments, which in turn have a specific precedence over the existing German debt.
3. A first charge by way of collateral on the "controlled revenues," *i. e.*, the gross revenues of the German Government derived from the customs and from the taxes on tobacco, beer and sugar, the net revenue of the German Government from the spirits monopoly; and such tax (if any) as may hereafter be similarly assigned by the German Government in accordance with the terms of the final Protocol of the London Conference. The "controlled revenues" are estimated as amounting annually to not less than 1,000,000,000 gold marks (approximately $240,000,000). The German Government may not create any further charge upon the controlled revenues ranking prior to, or equally with, the charge created in favor of the bonds of the Loan.

In the London Protocol, Annex IV, Article 3, the Governments of Belgium, Great Britain (with the Governments of Canada, Australia, New Zealand, South Africa and India), France, Greece, Italy, Japan, Portugal, Rumania and Jugoslavia, agreed as follows:

> "In order to secure the service of the loan of 800,000,000 gold marks contemplated by the Experts' Plan and in order to facilitate the issue of that loan to the public, the signatory Governments hereby declare that, in case sanctions have to be imposed in consequence of a default by Germany they will safeguard any specific securities which may be pledged to the service of the loan.
>
> "The signatory Governments further declare that they consider the service of the loan as entitled to absolute priority as regards any resources of Germany so far as such resources may have been subjected to a general charge in favor of the said loan, and also as regards any resources that may arise as a result of the imposition of sanctions."

At the London Conference, the Allied Governments adopted a resolution reading as follows:

> "The Allied Governments, desiring that this loan should be successfully raised, and contemplating that the loan will be a first lien on the security pledged thereto, will invite the central banks in their respective countries to use their good offices to facilitate the placing of the loan."

The Loan is dated October 15, 1924 and will mature October 15, 1949, through a sinking fund applied to the purchase of bonds at or below 105 per cent and accrued interest, or, if not so obtainable, bonds are to be redeemed by lot at 105 per cent and accrued interest, such accrued interest in either case to be paid otherwise than out of the sinking fund. The sinking fund is payable monthly, commencing November 15, 1924, and is sufficient to retire annually one twenty-fifth of the Loan at 105 per cent.

THE DANZIG LOAN

In April, 1925 a British banking firm offered for public subscription a loan of £1,500,000 on behalf of the Municipality of Danzig. The Loan was sanctioned by the League of Nations which appointed the Chairman of the Financial Committee of the League as Trustee for the bondholders. The bonds are due March 1, 1945 through a cumulative sinking fund, operating semi-annually by purchase of bonds in the open market at, or below, par and accrued interest, or, if not so obtainable, by drawings at par, commencing March 1, 1926. The issue is redeemable at the option of the Municipality as a whole only on March 1, 1935, or on any interest date thereafter (March 1 and September 1) at par and accrued interest, on forty days' previous notice.

Bonds are direct obligations of the Municipality of Danzig and are specifically secured by a first mortgage inscribed in the name of the Trustee upon:

(a) All lands, buildings and other property capable of being mortgaged pertaining to the municipal electric, gas and water works undertakings, including all extensions to be made from the proceeds of this loan, subject as regards the electric works to an outstanding prior charge of $216,349;

(b) Certain freehold lands and buildings thereon. [At the time of the contraction of the Loan, the above properties described under (a) were officially valued for the Senate of the Free City of Danzig at 60,000,000 gulden ($11,679,600) and properties described under (b) at 37,785,000 gulden ($7,359,500).]

The Danzig Loan is the only issue sponsored by the League in which American bankers and investors did not participate, except, perhaps, indirectly.

THE BULGARIAN LOAN

The Bulgarian Settlement Loan amounting to $4,500,000 and £2,400,000 was authorized and approved by the Council of the League of Nations and was issued pursuant to its Resolution of September 7, 1926, the Geneva Protocol of September 8, 1926, ratified by an Act of the Bulgarian Parliament of September 30, 1926, and an Act of Parliament of December 16, 1926, approving the Loan Contract. Of the total amount, $4,500,000 was placed in the United States, £1,750,000 in Great Britain and £650,000 in Holland, Switzerland and Italy.

The purpose of the Loan was to provide funds for the settlement of approximately 120,000 Bulgarian refugees from other countries, for the repayment of short-term indebtedness incurred in anticipation of the Loan and of about 76,000,000 French francs (about $3,040,000) Bulgarian Treasury Bills. The proceeds of the Loan, after deducting the above repayments were to be expended under the direct control of a Commissioner appointed by the Council of the League of Nations.

The Government of Bulgaria has undertaken to provide not less than 132,000 hectares (about 326,000 acres) of suitable un-

encumbered land, to be approved by the Commissioner for the refugees.

The Loan will be the direct obligation of the Bulgarian Government and will be secured by a first charge on the following revenues:

(a) Excise duty on alcohol, beer, etc.;

(b) Excise duty on salt, sugar and various imported commodities;

(c) Net receipts of the match monopoly;

(d) All payments made after November 1, 1928 by settlers for rent or interest.

[Sums received in payment for land, buildings, or material, or repayment of advances are to be added to the sinking fund for the Loan.]

If, at any time, the receipts from the above revenues should fall below 150 per cent of the annual sum required to meet the service of the Loan, the Bulgarian Government agreed to provide additional revenues (other than the customs), sufficient to insure total revenues equal to at least 150 per cent of the service requirements.

The pledged revenues are to be paid, as collected, into a special account, (with the National Bank of Bulgaria), to be controlled by the Commissioner and, after the termination of his functions, by Trustees to be appointed for the bondholders by the Council of the League of Nations. The sum required to meet the service of the Loan will be remitted to the fiscal agents in monthly installments for the account of the Trustees.

By decision of the Inter-Allied Commission, the revenues now or hereafter pledged for the Loan are, or (as the case may be) will be, released from the charge for Reparation payments.

A Reserve Fund, equal to one-half a year's service of the Loan, is to be deposited with the Trustees and any amount drawn therefrom to complete service requirements is to be forthwith restored.

The bonds are dated January 1, 1927 and will mature January 1, 1967 through a cumulative sinking fund applied to the purchase of bonds at or below par, or if not so obtainable, to semi-annual redemption by lot at par, commencing January 1, 1928. The sinking fund is to be increased by all sums received after November 1, 1928 from settlers in payment for land, buildings or material, or repayment of advances. Except for the sinking fund, the bonds are not subject to call prior to January 1, 1939, on which date or on any interest date thereafter (January 1 and July 1), the Bulgarian Government reserves the right to repay at par all or any bond of the bonds then outstanding, upon not less than six months' previous notice.

THE ESTONIAN LOAN

In December, 1926, the Council of the League of Nations approved the raising of a loan by Estonia providing an effective net sum of £1,350,000, of which £1,000,000 was to be transferred to the Bank of Estonia in exchange for long-term assets and the balance to be used for the establishment of a new mortgage institution.

Under the Protocol signed at Geneva by the Estonian Minister of Finance on December 10, 1926, and approved by the Council of the League of Nations, the Loan, together with a Loan issued originally at £130,000 in England in 1926 under the Trade Facilities Act, has a first charge on the excise duties on: (a) tobacco; (b) beer; (c) matches and other minor articles.

The Protocol provides for the payment of the assigned revenues into a special account to be controlled by the Trustee, who may appeal any differences as to the interpretation of the Protocol to the Council of the League for final settlement.

If, in any quarter of the financial year, the yield of the assigned revenues falls below 150 per cent of the amount required for the service of this Loan, the Trustee may demand that additional revenues or assets be assigned. As provided by the Protocol, the Estonian Parliament passed laws for the reform of the Bank of Issue and a monetary law. The Bank was to take over the State note issue and the gold reserves held there against it. After these transfers and after

receiving £1,000,000 from the proceeds of this Loan, the Bank would hold gold exchange aggregating about 58 per cent of its notes and deposits, whereas the statutes prescribe a minimum reserve of 40 per cent. A new currency, the *Kroon*, has been established with a gold par of $0.268, which was on the basis of the then prevailing exchange rate, at which the Estonian mark had been kept stabilized since the end of 1924.

The Loan to Estonia consisted of $4,000,000 and £700,000 offered simultaneously in the United States and in Great Britain. Bonds are dated July 1, 1927 and will mature July 1, 1967 through a cumulative sinking fund, operating by purchases at or below par or by drawings at par. The issue is redeemable as a whole or in part on July 1, 1937, or on any interest date thereafter (January 1 and June 1) at par upon six months' previous notice.

COMPARISON OF LEAGUE OF NATIONS AND OTHER LOANS

The present study has been prompted primarily by the likelihood that a number of foreign governments will in the not distant future contract loans under the auspices of the League of Nations, and which are expected to be offered to the investing public. A detailed discussion is presented regarding the various loans which have thus far been sold under the auspices of the League. It is important to note that the purpose of such loans has in each instance been highly constructive, marking definite steps forward in the process of world reconstruction which was made necessary by the cataclysm of the war and the economic and financial disturbances which it caused. Without League inspiration, it is doubtful whether Germany's reconstruction, or Austria's renascence, or Hungary's recovery, or Bulgaria's rehabilitation or the restoration of Greece, Danzig, and Estonia would have been accomplished so promptly. These loans have proved desirable not only from the altruistic standpoint, but also from the point of view of profit. The subjoined table clearly illustrates this point.

TABLE OF LEAGUE OF NATIONS LOANS

	Amount Issued— Par Value	*Value at Price of Issue*	*Yield at Price of Issue*	*Value at Recent Price*	*Appreciation Per $1,000 bond*
Austria 6s, 1943§	$126,000,000	$113,400,000	8.00%	$130,410,000	$135.00
Bulgaria 7s, 1967	16,179,600	14,885,132	7.65	15,047,028	10.00
Danzig 7s, 1945	7,299,750	6,569,775	8.05	7,044,260	65.00
Estonia 7s, 1967	7,406,550	6,999,190	7.40	7,239,060	1.25*
Germany 7s, 1949†	190,400,000	175,168,000	7.70	205,156,000	157.50
Greece 7s, 1964 (1st Loan)	59,858,000	52,675,040	8.00	58,885,300	103.75
Greece 6s, 1968 (2nd Loan)	36,811,327	33,498,300	6.65	32,946,137	15.00*
Hungary 7½s, 1944	50,650,000	44,318,750	8.85	51,789,625	147.50
Total	$494,605,227	$447,514,187	7.79%	$508,517,410	$123.30

§Except for the American and Austrian portions which bear interest at the rate of 7 per cent, and the French and Italian portions which bear interest at the rate of 6½ per cent, bonds carry a 6 per cent coupon.
*Denotes depreciation per $1,000 bond.
†This is not technically a League loan. Cf. p. 22.

From the table shown above it is noted that the aggregate par value of all loans which have so far been underwritten and sold under the auspices of the League of Nations is $494,605,227; that the value based upon the price of issue amounts to $447,514,187; that the yield per bond at the time of issue averaged 7.79 per cent; and that the value of the bonds on the basis of recent quotations approximates $508,517,410. In other words, if the investor had purchased one $1,000 bond of every League loan which has thus far been sold, he would, in addition to receiving a very liberal return on his investment, averaging 7.79 per cent, have an appreciation in his principal amounting to $123.30 per bond. The profit was most marked in the case of the German loan

amounting to $157.50 per bond; the Hungarians are next in order with an appreciation of $147.50, followed by the Austrians with $135.00, the first Greek Loan with $103.75, the Danzig Loan with $65.00 and the Bulgarians with $10 per bond. Only two loans show slight losses, *viz.*, the Estonians and the second Greek issue, aggregating $1.25 and $15 per bond, respectively.

The following table is valuable as a means of comparison, presenting as it does the salient features pertaining to loans which have been sold on behalf of a number of European countries, independently of the League of Nations.

TABLE OF NON-LEAGUE LOANS

	Amount Issued Par Value	*Value at Issue Price*	*Yield at Price of Issue*	*Value at Recent Price*	*Appreciation per $1,000 bond*
Czechoslovakia 8s, 1951	$ 30,074,000	$ 29,022,410	8.30%	$ 33,081,400	$135.00
Czechoslovakia 8s, 1952	19,233,500	18,560,325	8.30	21,156,850	135.00
Czechoslovakia 7½s, 1945	25,000,000	24,000,000	8.00	26,250,000*	90.00
Jugoslavia 8s, 1962	15,200,000	14,563,750	8.40	15,200,000	45.00
Jugoslavia 7s, 1962	30,000,000	27,750,000	7.60	27,000,000	25.00†
Poland 6s, 1940	23,075,750	23,075,750	6.00	19,845,145	140.00†
Poland 8s, 1950	35,000,000	31,350,000	8.53	35,175,000	55.00
Poland 7s, 1947	71,740,000	66,000,800	7.86	64,566,000	20.00†
Rumania 4s, 1942	12,175,000	8,157,250	7.12	8,522,500	30.00
	$261,498,250	$232,480,285	7.79%	$250,796,895	$ 78.80

†Denotes loss per $1,000 bond.
*Value based upon redemption price of 105 at which figure bonds were recently repaid.

It will be noted that of the League of Nations loans, only two issues were offered to yield in excess of 8 per cent, two loans to yield 8 per cent, three loans to yield more than 7 per cent and one at a price to yield 6.65 per cent. The issues which have not been sold under the auspices of the League appear to have been considerably more expensive to the borrowing Governments than League loans, as may be readily gathered from the above table. Four of these loans were placed on the market at prices yielding well over 8 per cent, one issue was sold on an 8 per cent basis, three on a more than a 7 per cent basis, and one on a 6 per cent basis. The relatively low return on the last named issue is attributable to the fact that the bonds were at first privately placed and that there was at the beginning practically no market for the loan.

Although the average return of League loans on the basis of the price of offering is exactly the same as on loans not sold under the auspices of the League, namely 7.79 per cent, the appreciation per $1,000 bond on the basis of recent quotations averages $78.80, whereas the average profit per $1,000 bond of League issues is $123.30. It is also worth noting that the net appreciation per bond of $1,000 denomination, ranges from $10.00 to $157.50 in the case of League loans, whereas the maximum appreciation per bond not sold under the auspices of the League is $140.00, the minimum profit being $30.00 per bond. Whereas only two League loans show losses in principal of $1.25 and $15.00 per bond, the losses registered in case of non-League issues range from $20.00 to as high as $140.00 per bond of $1,000.

On the basis of the foregoing analysis it is obvious that League loans which have thus far been sold have proved highly beneficial not only to the borrowing countries but also to those who have placed their funds in loans sponsored by the League of Nations.